

Exploitative Briefcase Businessmen, Parasites, and Other Myths and Legends: Assembly Traders and the Performance of Maize Markets in Eastern and Southern Africa

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Summary. — Small-scale assemblers are both the most vilified and least understood actors in food value chains in Sub-Saharan Africa. Drawing on data from Kenya, Zambia, Malawi, and Mozambique, this article explores how maize assemblers influence the market access conditions of small-scale farmers. Assembly markets for maize are found to be highly competitive in terms of the number of traders operating and marketing margins. Farmers' market access conditions in remote areas are particularly improved by the operation of assembly traders. Direct state operations in markets have sometimes unintentionally exacerbated market access conditions for farmers through their effects on rural assembly markets. While smallholder farmers face important marketing challenges, the brightest prospects for effectively addressing them require greater support for the development of competitive assembly markets rather than supplanting them.

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But right now, the maize market situation is chaotic in the district because farmers are not benefiting anything. They are being exploited by the briefcase dealers who are buying their produce at very low prices." Kalomo District Commissioner Justin Phiri, May 13th, 2010. (Quoted in the *Zambian Post Newspaper*)

1. INTRODUCTION

Despite a rhetorical commitment to the liberalization of cereal markets, many governments in Sub-Saharan Africa (SSA) continue to intervene directly in the acquisition and distribution of staple food grains, and the regulation of grain traders' activities. These regulations and interventions tend to be carried out in an *ad hoc* way, as governments attempt to cope with the competing demands of food producers and consumers that underpin the classic food price dilemma. A strand of the literature on food markets in sub-Saharan Africa highlights the market unpredictability created by *ad hoc* state activity as being one of the primary obstacles limiting the improved performance of cereal markets (Abbink, Jayne, & Moller, 2011; Jayne, Zulu, & Nijhoff, 2006; Govereh et al., 2010). At the heart of this highly interventionist approach to food market development is a persistent and widespread distrust of private sector actors' participation in food markets. Of all the private sector actors involved in African cereal markets, none has been more maligned or misunderstood than the private traders who assemble grain at the village-level.²

Frequently referred to as "exploitative briefcase businessmen," "parasites," or "the black market," assembly traders provide a useful antagonist for governments seeking to justify continued state regulation of agricultural output markets. More specifically, assembly traders are at the heart of two interrelated narratives on food market performance in the region that have come to frame how and why governments continue to spend their scarce treasury resources procuring grain from farmers. The first of these narratives is that market

liberalization and the resultant scaled-back role of marketing board activities has cut-off farmers, particularly in more remote regions, from reliable access to markets for their produce. This, in turn, has spawned a second dominant narrative: unreliable market access conditions compel farmers to sell their produce to village-level grain assemblers who exploit farmers' lack of formal markets by offering prices that are below the cost of production.

Unfortunately academic literature on grain assembly in rural Africa is scant and has provided policymakers in the region with little empirical evidence with which to better understand grain assembly in their countries and its effects on rural farm households. As will be discussed in greater detail in Section 2, the bulk of the academic literature has not provided basic descriptive evidence on the structure and behaviors of grain assembly markets. Rather, the literature has tended to approach the study of grain assembly in more indirect ways, e.g., through spatial and temporal price transmission analyses (for example, Myers, 2013; Myers & Jayne, 2012; Rashid & Minot, 2010; Tostão & Brorsen, 2005; Van Campenhout, 2008). While such analyses provide very important insights,

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they cannot address many of the fundamental concerns of policy makers, such as how far farmers must go to find markets, how many buyers can they choose from, and why farmers in the same villages receive varying prices for their crop. The few explicit studies of grain assembly that exist have been pre-occupied with understanding why the sector expanded so rapidly, relative to other parts of cereal market chains, in the wake of the agricultural market reforms of the late 1980s and early 1990s (for example Barrett, 1997; Coulter & Golob, 1992; Santorum & Tibaijuka, 1992).

In the absence of clear analyses of the effects of assembly traders on marketing margins and producers' marketing behaviors, policy-makers in SSA have tended to pursue output market policies that limit the capacity of private sector traders, including assembly traders, from participating in output markets (Jayne et al., 2006; Tschirley and Jayne, 2010; Abbink et al., 2011; Ellis & Manda, 2012). This has mainly taken the form of renewed public spending on parastatal marketing boards, which procure grains from farmers, frequently at above-market, pan-territorial prices (Mason & Myers, 2013). In Zambia, for example, the government routinely spends 25% of its budget for rural poverty reduction buying maize from farmers at the above market prices (Mason, Jayne, & Myers, 2011). Similar trends are seen with Malawi's Agricultural Development and Marketing Cooperation (ADMARC) and Kenya's National Crop and Produce Board (NCPB) (Jayne, Sitko, Ricker-Gilbert, & Mangisoni, 2009; Kirimi et al., 2011).

Because so many of the current public policy approaches to agricultural output markets reflect a tacit belief in the need to overcome perceived market failures in village-level cereal markets, the limited literature on village grain assembly is surprising. In the absence of a strong state presence in cereal markets, are farmers in rural Africa coerced into selling their grain to oligopolistic assembly traders? Are farmers in isolated regions cut off from output markets for staple cereal grains? This article seeks to shed empirical light on the ways in which assembly traders affect the performance of rural cereal markets. It does this in four interrelated ways. Using survey data from 205 village focus group discussions and 2703 individual farm-level maize transactions in Kenya, Malawi, Zambia, and Mozambique, the article examines: (1) What market channels are available to farmers in rural regions and what percent of transactions pass through each of these channels? (2) What are the market margins between farm-gate and wholesale/retail maize prices in nearby markets for the various available market channels? (3) How many assembly traders come into rural villages, and how does this vary in terms of standard market access indicators such as distance to urban market or distance to a paved road?, and (4) What is the effect of assembly trading on the distance traveled to the initial point of sale by farmers? Through this multi-dimensional analysis of rural grain market performance we argue against the dominant narratives of rural farmers being cut-off from competitive output markets for cereal crops and of assembly traders as noncompetitive rent extractors. Moreover, we argue that by directing public spending in ways that undermine the capacity of assembly traders to participate in output markets, governments in the region are hindering the ability of poor farmers with small quantities from effectively engaging in markets.

The paper is organized as follows. The next section reviews the debates and data gaps in the existing literature on grain assembly in Sub-Saharan Africa. The third section describes the data sources and research methods used in this article. The fourth section presents the main findings of the analysis. The final section offers some concluding remarks on the investment and policy implications of the findings.

2. PARADOXES AND CONVENTIONAL WISDOM: THE LITERATURE ON ASSEMBLY TRADING

In spite of numerous discussions and debates about small-holder market participation and market failures in rural SSA, there have been few empirical studies on grain assembly in the region (see Barrett, 2008 for a review). Indeed, the bulk of the existing literature on the assembly sector came in response to the market reforms that dominated agricultural policy discussions in the 1990s. These studies overwhelmingly found that agricultural market reforms, which in many countries included the legalization of private grain trade and the lifting of restrictions on inter-district transport of grains (Jayne & Jones, 1997), contributed directly to a significant increase in the number of small-scale, private grain traders (Barrett, 1997; Coulter & Golob, 1992; Dercon, 1993). The expansion of private grain trading, particularly at the assembly level, is linked in the literature to the low entry barriers, in terms of fixed and sunk costs, which allowed individuals without significant capital or assets to easily enter into grain trading (Barrett, 1997; Coulter & Golob, 1992). The expansion of off-farm income earning possibilities created by the freeing up of private grain trading is seen by some as a positive development for rural poverty reduction. As Dorward and Morrison (2000) argue, due to low barriers to entry, grain assembly offers strong poverty reduction potential for myriad rural folks without the necessary land and capital to achieve surplus production levels of cereal grains (also see Dorward, Kydd, Morrison, & Urey, 2004 and Barrett, 1997).

In addition to exploring the effects of market liberalization on private sector market participation, much of the academic literature on cereal market performance has focused on market efficiency, measured in terms of spatial market integration. Using various methodological approaches the literature on spatial market integration explores the speed and extent to which price changes in one market effect price changes in other markets, as well as the speed of adjustment toward long-run price relationships (Rashid & Minot, 2010). The consensus of these studies has shown that cereal markets in Eastern and Southern Africa have become significantly more efficient and co-integrated than they were prior to market reforms (Goletti & Babu, 1994; Moser, Barrett, & Minten, 2009; Myers & Jayne, 2012; Tostão & Brorsen, 2005). The implication of these studies is that private sector grain traders generally respond to price incentives in markets throughout the region, they do so relatively quickly, and this has had a beneficial impact on cereal markets, particularly in helping markets quickly return to a long-run price equilibrium following a price shock.

Yet despite clear evidence of an expansion in private grain trading since market reforms were initiated and the beneficial effects this has on market integration and efficiency, claims of rent seeking behavior by private grain traders persist. Dorward et al. (2004) aptly summarize the conventional wisdom on post-liberalization agricultural market development in Sub-Saharan Africa, stating that there has been a notable lack of success in the development of "the critical functions needed to kick-start cereal-based intensive growth in poorer rural areas" (p. 78). In particular "the private sector has not moved in to provide farmers with input, output, or financial markets that are attractively priced, timely and reliable" (p. 78). In attempting to explain the seeming paradox of the evident expansion of grain trading in rural areas coupled with persistent complaints of uncompetitive market behaviors among grain traders, analysts have focused their attention on transaction costs within the sector. In particular, research suggests that there is significant spatial market segmentation and high marketing costs in grain trading that

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